

Message Text

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FM AMEMBASSY PARIS

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INFO AMEMBASSY BONN

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PASS TREASURY, FEDERAL RESERVE, COMMERCE

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 34872, NOVEMBER 24, L976

1. SUMMARY

BUSINESS SENTIMENT AND PRICES CONTINUE ALONG THE SAME TREND THAT HAS BEEN EVIDENT FOR THE PAST TWO MONTHS WHICH IS CERTAINLY NOT THE EFFECT WHICH THE GOF HOPED THE BARRE PLAN WOULD CREATE. THE WORST NEWS WAS THE UNEXPECTEDLY HIGH INCREASE IN PRICES IN OCTOBER. OTHER NEWS WAS NOT LACKING BUT THE PRINTERS WERE FOR THREE UNCLASSIFIED

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DAYS; THE PERSONNEL AT GAS AND ELECTRICITY AND IN THE

METRO HAVE TAKEN OUT THEIR GRIEVANCES THROUGH TEMPORARY INTERRUPTIONS IN SERVICE AS WILL THOSE AT THE STOCK EXCHANGE TOMORROW. END SUMMARY

2. INDUSTRIALISTS REMAIN IN THE DOLDRUMS

THE INSEE MONTHLY INDUSTRIAL SURVEY OF HEADS OF ENTERPRISES REPORTS THAT THE GENERAL CLIMATE CONTINUED TO DETERIORATE IN NOVEMBER AND THAT INDUSTRIALISTS WERE VERY PESSIMISTIC AND FORESAW A DECREASE IN THEIR OWN PRODUCTION. ORDERS APPEARED TO BE LOWER THAN DELIVERIES WHILE BACK ORDERS WERE JUDGED TO BE LOWER THAN NORMAL. FOREIGN ORDERS DID NOT SHOW ANY IMPROVEMENT. THE INVENTORIES OF FINISHED PRODUCTS HAVE BEEN ONLY SLIGHTLY RECONSTITUTED SINCE MAY. THE NUMBER OF INDUSTRIALISTS EXPECTING AN INCREASE IN PRICES WAS SLIGHTLY HIGHER THAN IN OCTOBER WHICH HAD SET A RECORD LOW.

IN THE CAPITAL GOODS SECTOR THE GROWTH OF PRODUCTION HAD SLOWED DOWN DURING THE PAST SEVERAL MONTHS FOR THE ENTIRE SECTOR. BACK ORDERS WERE JUDGED TO BE LOWER THAN NORMAL, PARTICULARLY IN MACHINE CONSTRUCTION AND ELECTRICAL CONSTRUCTION. ALTHOUGH STOCKS SHOWED A SLIGHT INCREASE, THEY STILL APPEARED TO BE QUITE WEAK. DURING THE COMING MONTHS, PRODUCERS FORESAW A STABILIZATION IN THEIR PRODUCTION. ACTIVITY MAY EVEN DECLINE IN THE GENERAL INDUSTRIAL EQUIPMENT AND MACHINE CONSTRUCTION SECTORS.

ACTIVITY SLOWED DOWN SLIGHTLY IN THE HOUSEHOLD APPLIANCES AND AUTOMOBILE INDUSTRIES, BUT FOR THE REMAINDER OF THE CONSUMER GOODS SECTOR IT CONTINUED AT A MODERATE RATE. BACK ORDERS WERE CONSIDERED TO BE MUCH LOWER THAN THEY HAD BEEN DURING THE SUMMER WHILE FOREIGN ORDERS REMAINED MUCH LOWER THAN NORMAL. THE TREND SINCE LAST SPRING TOWARD THE RECONSTITUTION OF STOCKS OF FINISHED PRODUCTS APPEARED TO BE REVERSED IN NOVEMBER, AND INVENTORIES WERE JUDGED TO BE LOW. PRODUCTION WAS UNCLASSIFIED

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EXPECTED TO REMAIN STABLE OR DECREASE SLIGHTLY IN THE COURSE OF THE NEXT MONTHS, PARTICULARLY IN THE AUTOMOBILE AND TEXTILE INDUSTRIES.

PRODUCTION IN THE ENTIRE INTERMEDIATE GOODS SECTOR STABILIZED DURING OCTOBER AND NOVEMBER. BOTH DOMESTIC AND FOREIGN BACK ORDERS CONTINUED THEIR DECLINE FROM THE BEGINNING OF THE SUMMER AND WERE

CONSIDERED TO BE VERY MUCH LOWER THAN NORMAL WITH THE EXCEPTION OF THE GLASS INDUSTRY. STOCKS OF FINISHED PRODUCTS INCREASED SLIGHTLY AND WERE JUDGED TO BE NORMAL. PRODUCTION SHOULD DECLINE DURING THE NEXT FEW MONTHS; ONLY THE GLASS INDUSTRY SHOULD EXPERIENCE A MODERATE GROWTH.

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3. PRIVATE SURVEY CONFIRMS ABOVE RESULTS

ACCORDING TO A RECENT SURVEY CONDUCTED BY "CEGOS-ECONOMIE" REPORTED IN "LES ECHOES," HEADS OF

ENTERPRISES BELIEVE THAT THERE WILL BE SOME IMPROVEMENT IN THE ECONOMIC SITUATION AS A RESULT OF THE BARRE PLAN, BUT THEY DO NOT FORESEE ANY EARLY RETURN TO PROSPERITY. IN THE COMING MONTHS, THEY DO NOT FEAR ANY SHARP DECLINE IN ACTIVITY BUT SPEAK, INSTEAD, OF A FLAT PROFILE. IN 1977, SEVEN OUT OF TEN ENTERPRISES WILL NOT INCREASE THE VOLUME OF THEIR INVESTMENT. INVENTORIES REMAIN UNCLASSIFIED

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AT A VERY LOW LEVEL; THE FINANCIAL SITUATION OF ENTERPRISES IS SLIGHTLY HEALTHIER THAN LAST YEAR.

THE INDUSTRIALISTS DESCRIBED THEMSELVES AS HAVING BEEN MUCH LESS GENEROUS CONCERNING WAGES THAN THEY HAD BEEN IN 1975. THIS YEAR FOR EACH TEN ENTERPRISES, THREE HAD GIVEN ONLY AN INCREASE EQUIVALENT TO THE INSEE RETAIL PRICE INDEX, FOUR HAD GIVEN ONE OR TWO POINTS ABOVE THE INDEX, WHILE TWO HAD GIVEN MORE THAN TWO POINTS. JUDGING FROM THE RESPONSES, WAGE POLICY NEXT YEAR WILL DEPEND VERY STRONGLY ON THE POSITION OF THE GOVERNMENT TOWARDS ITS OWN WAGE EARNERS.

FOR THE MOST PART, THE ENTERPRISES CONSIDERED THEMSELVES TO BE RELATIVELY UNAFFECTED BY THE BARRE PLAN, WITH THE EXCEPTION OF THE PRICE FREEZE WHICH AFFECTED MAINLY THOSE WHO HAD NOT RECENTLY RAISED THEIR PRICES OR WHO BUY ABROAD. THEY FOUND VERY LITTLE STIMULUS IN THE PLAN, PARTICULARLY FOR INVESTMENT WHICH WILL BE CARRIED OUT ONLY BECAUSE THE DECISION HAD BEEN PREVIOUSLY TAKEN. ALREADY BANKERS REPORTEDLY INDICATE THAT THEY WILL HAVE DIFFICULTY PLACING THEIR QUOTAS OF THE LOANS MEANT TO STIMULATE THE INVESTMENTS OF SMALL AND MEDIUM-SIZED ENTERPRISES. THE SQUEEZE ON CREDIT IS NOT CONSIDERED AS POSING TOO MANY PROBLEMS DUE TO A SLOWDOWN IN ACTIVITY AND THE ABSENCE OF LARGE INVESTMENT PLANS. ON THE OTHER HAND, THE INDUSTRIALISTS CONSIDER THE RETURN TO STABILITY OF THE FRANC AS ESSENTIAL.

THE MAJORITY OF THE INDUSTRIALISTS SURVEYED EXPECT A SLOWDOWN IN THE RATE OF INFLATION, BUT A RATE IN THE ORDER OF 7-8 PERCENT WOULD BE CONSIDERED A SUCCESS. AS TO EMPLOYMENT, THEY BELIEVE THE ECONOMY IS BECOMING HABITUATED TO UNEMPLOYMENT, WHICH APPEARS TO BE NOT SO MUCH TIED TO THE ECONOMIC SITUATION AS A STRUCTURAL PHENOMENON. ACCORDING TO THESE

INDUSTRIALISTS, THE SUCCESS OF THE BARRE PLAN
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WILL DEPEND ON ITS MARKETING, THE OBTAINMENT OF
A CONSENSUS FOR ITS OBJECTIVES, THE FRENCH
POLITICAL CLIMATE, AND THE INTERNATIONAL
SITUATION.

4. SECTOR TRENDS IN INDUSTRY

QUARTERLY INDUSTRIAL PRODUCTION INDICES FOR THE
FIRST TWO QUARTERS OF THIS YEAR CONFIRM THE
STAGNATION REPORTED EARLIER. THE DETAILS OF THE
SECOND QUARTER INDEX, JUST PUBLISHED, REVEAL
RELATIVE DECLINES IN THE FOLLOWING SECTORS:
NATURAL GAS; ELECTRICITY; PETROLEUM PRODUCTS;
COAL; MACHINERY AND TOOLS; AERO AND NAVAL
CONSTRUCTION; TEXTILES; LEATHER AND LEATHER
GOODS; CONSTRUCTION AND PUBLIC WORKS. A
RELATIVE GAIN WAS REGISTERED IN THE FOLLOWING
SECTORS: CONSTRUCTION MATERIALS AND CERAMICS;
GLASS; IRON AND STEEL; NONFERROUS METALS;
ELECTRICAL CONSTRUCTION; AUTOMOTIVE; CHEMICALS;
AND RUBBER. COMMENT: TRENDS SINCE THE END OF
THE SECOND QUARTER STRONGLY INDICATE A SLOWDOWN
IN IRON AND STEEL, A LEVELING-OFF OF CHEMICALS,
RUBBER, AND SINCE OCTOBER AUTOMOTIVE PRODUCTION.
THUS, IT SEEMS MOST LIKELY THAT FOR 1976 AS A WHOLE
INDUSTRIAL PRODUCTION WILL BE STAGNATE AT A
RELATIVELY HIGH LEVEL FOLLOWING THE BRIEF BUT
SHARP RISE IN INDUSTRIAL PRODUCTION DURING THE
FALL OF 1975. IF THE AUTOMOTIVE SECTOR AND
ITS EFFECTS ON RELATED SECTORS (RUBBER, IRON AND

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FM AMEMBASSY PARIS
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STEEL) WERE EXCLUDED, THE INDUSTRIAL PRODUCTION INDEX IN FRANCE PROBABLY WOULD HAVE BEEN MORE OR LESS FLAT SINCE THE LATE SUMMER OF 1975. END COMMENT.

5. TAXE PROFESSIONNELLE FORCES BARRE INTO SLIGHT RETREAT

TAKING A STEP BACKWARD FROM HIS POSITION TWO WEEKS AGO (SEE REFTEL), PRIME MINISTER BARRE HAS PUT A CEILING OF 70 PERCENT ON THE INCREASE IN THE TAXE PROFESSIONNELLE WHICH ENTERPRISES WILL BE REQUIRED TO PAY THIS YEAR. IN ADDITION, THE DEADLINE FOR PAYMENT HAS BEEN EXTENDED.

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MOREOVER, HE HAS PROMISED A REFORM OF THE TAXE PROFESSIONNELLE WHICH WILL BE PRESENTED IN A BILL NEXT SPRING.

THE COST OF THE REDUCTION IN THE TAX BILL IS ESTIMATED TO BE FF 2.7 BILLION WHICH WILL PROBABLY BE PAID BY THE TREASURY TO THE LOCAL ADMINISTRATIONS. THUS, BARRE'S HOPES FOR A BALANCED BUDGET IN 1977 ARE COMPROMISED EVEN BEFORE

THE YEAR BEGINS.

THE PATRONAT IS STILL NOT SATISFIED WITH THIS DECISION
AND INSISTS THAT THE 70 PERCENT CEILING IS MUCH TOO
HIGH.

6. RATE OF INFLATION IN OCTOBER WORSE THAN EXPECTED

EVEN WORSE THAN EARLY PESSIMISTIC ESTIMATES, THE
CONSUMER PRICE INDEX REGISTERED AN INCREASE OF
0.9 PERCENT IN OCTOBER. THE OFFENDING SECTORS
WERE FOOD PRODUCTS AND SERVICES WITH 1.2 PERCENT AND
0.9 PERCENT INCREASES RESPECTIVELY. THE INCREASE
FOR THE MANUFACTURING SECTOR WAS 0.6 PERCENT.

THE INCREASE IN THE CPI SINCE OCTOBER 1975 WAS
9.9 PERCENT. SINCE THE BEGINNING OF THIS YEAR,
RETAIL PRICES HAVE INCREASED BY 8.6 PERCENT. IN
TERMS OF THE CHANGE IN THE CPI DURING THE PAST
THREE MONTHS COMPOUNDED AT AN ANNUAL RATE, THE
INCREASE HAS BEEN 11.1 PERCENT. IT IS VERY
PROBABLE, TAKING INTO ACCOUNT THE BAD RESULTS
EXPECTED FOR NOVEMBER DUE TO THE GASOLINE
PRICE INCREASE, THAT THE RATE OF INFLATION
WILL SURPASS THE 10 PERCENT MARK FOR THE YEAR,
A FAR CRY FROM THE 7.8 PERCENT GOAL SET BY THE
GOF AT THE BEGINNING OF THIS YEAR.

7. MADAME CONSCIENCE CLEARLY LACKS A CONSCIENCE

ONE OF THE FIRST CASES TO BE TRIED FOR A VIOLATION
OF THE PRICE FREEZE IS THAT OF A MME. CONSCIENCE,
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MANAGER OF A CAFE ON THE CHAMPS-ELYSEES, WHO HAS
BEEN ACCUSED OF INCREASING THE PRICE OF HER DRINKS
BY 50 TO 120 PERCENT. A SENTENCE OF THREE MONTHS
WITH REPRIEVE AND A FINE OF FF 650,000 HAVE BEEN
REQUESTED FOR THIS INFRACTOR.

AS IS OBVIOUS FROM THE OCTOBER PRICE INDEX, THE
PRICE FREEZE HAS, AT BEST, ONLY SLIGHTLY DAMPENED
THE FIRES OF INFLATION, PARTICULARLY IN THE
SERVICE SECTOR. ACCORDING TO "LE FIGARO," THE
RATE OF INFRACTIONS HAS BEEN STEADILY INCREASING.
BETWEEN OCTOBER 1 AND NOVEMBER 24, THERE WERE
204,055 PRICE CHECKS. IN THE FIRST HALF OF
OCTOBER THE RATE OF INFRACTIONS WAS 3.3 PERCENT;
IN THE SECOND HALF, 3.8 PERCENT; FROM OCTOBER 28
TO NOVEMBER 9, 4.4 PERCENT; AND FROM NOVEMBER 10-24,

4.9 PERCENT.

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8. VERY TIGHTLY CONTROLLED SYSTEM OF PRICE

FREEDOM TO REPLACE FREEZE

THE CURRENT FREEZE ON PRICE WILL BE REPLACED ON
JANUARY 1 BY A REGIME WHICH WILL ALLOW ENTERPRISES
THE FREEDOM TO SET THEIR OWN PRICES BUT UNDER VERY
TIGHTLY SURVEYED CONDITIONS. THE GOF RETAINS THE
CAVEAT THAT THE PRICE BLOCKAGE MAY BE EXTENDED
BEYOND THAT DATE FOR ANY SECTOR NOT RESPECTING THE

FREEZE.

THE RETURN TO A SYSTEM OF PRICE FREEDOM WILL, BY
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NO MEANS, BE AUTOMATIC. UNDER THE NEW REGIME, EACH PROFESSIONAL BRANCH WILL BE GIVEN THIS FREEDOM ONLY IF IT AGREES NOT TO SURPASS A CERTAIN PERCENTAGE INCREASE IN PRICES DURING 1977. THE MAXIMUM INCREASE WILL BE 5.5 PERCENT FOR INDUSTRY, 6.5 PERCENT FOR PUBLIC TARIFFS AND SERVICES, AND 7.0 PERCENT FOR FOOD PRODUCTS. THOSE BRANCHES NOT SIGNING THIS AGREEMENT WILL HAVE TO SUBMIT ANY PRICE INCREASE TO PRIOR AUTHORIZATION BY THE GOF. FIRMS WITH LESS THAN 20 EMPLOYEES WILL NOT BE REQUIRED TO SIGN THE AGREEMENT.

9. PRIME MINISTER DELEGATE DURAFOUR CONFIRMS ANTI-INFLATION PRIORITY

IN RESPONSE TO REPRESENTATIONS OF THE STOCK MARKET, M. DURAFOUR REPLIED THAT THE REVIVAL OF THE FINANCIAL MARKET WILL OCCUR WITH THE RECOVERY OF INVESTMENT AND NOTED EMPHASITICALLY THAT THE NUMBER ONE OBJECTIVE REMAINS THE FIGHT AGAINST INFLATION, WHICH ASSUMES THAT AID TO REVIVE INVESTMENT WILL NOT BE GIVEN UNTIL THE RISE OF PRICES REACHES THE OBJECTIVE OF 6.5 PERCENT PER YEAR. IN THIS RESPECT, M. DURAFOUR INDICATED SOME PESSIMISM, SINCE THE OBJECTIVE OF 6.5 PERCENT HAD BEEN FIXED IN SEPTEMBER ON THE ASSUMPTION OF AN INCREASE IN PRICES OF 10 PERCENT FOR 1976 WHEREAS THE CURRENT RATE OF PRICE INCREASE IS FROM 12 TO 13 PERCENT. THE FINANCE MINISTER DELEGATE THUS DID NOT EXCLUDE THE POSSIBILITY THAT IT MIGHT BE NECESSARY TO WAIT UNTIL 1978 IN ORDER TO ACHIEVE A RELATIVE STABILIZATION OF PRICES. COMMENT: THIS RATHER GRIM RESPONSE PROBABLY GAVE LITTLE COMFORT TO THE BOURSE WHICH FACES SERIOUS DIFFICULTIES AND A GENERALLY FALLING MARKET, BUT IT DOES REFLECT RECENT VIEWS OF PRIME MINISTER BARRE WHO HAS TAKEN A VERY HARD LINE INDEED ON THE FIGHT AGAINST INFLATION. POSSIBLY THIS IS PART OF PLAN TO KEEP A HARD LINE UNTIL THE GOVERNMENT DEALS WITH PUBLIC SECTOR WAGE INCREASES EARLY NEXT YEAR. AFTER ALL, PRESIDENT GISCARD IN A SPEECH IN STRASBOURG VIRTUALLY UNCLASSIFIED

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PROMISED A PROGRAM TO ASSIST INVESTMENT DURING THE SECOND HALF OF 1977, IMPLYING THAT THE BARRE PLAN WOULD ACHIEVE POSITIVE RESULTS BY NEXT SUMMER.

THE STAGNATION IN THE STOCK MARKET IS REFLECTED BY THE FACT THAT THE TOTAL ISSUE OF STOCKS AND BONDS IS EXPECTED TO BE ONLY FF 44-45 BILLION IN 1976, AS COMPARED TO FF 52.6 BILLION LAST YEAR. FOR THE FIRST NINE MONTHS OF 1976, THE TOTAL WAS FF 36 BILLION OF WHICH LESS THAN FF 8 BILLION WAS FOR STOCK ISSUES. THE DATA FOR THE PAST THREE YEARS ALSO SHOWS THE PREPONDERANCE OF GOVERNMENT OBLIGATIONS IN THE FINANCIAL MARKET:

(IN BILLIONS OF CURRENT FRANCS)

1973 1974 1975

BONDS

GOF	28.1	15.6	28.8
PRIVATE	9.6	8.6	15.3
	(37.7)	(24.2)	(44.1)

SHARES 9.5 9.6 8.5

TOTAL 47.2 33.8 52.6

10. PARLIAMENTARY DISCUSSION OF IMF AMENDMENT IS POSTPONED TO NEXT SPRING

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THE BILL AUTHORIZING THE GOF TO APPROVE AN AMENDMENT
TO THE STATUTES OF THE IMF AND TO PARTICIPATE IN THE
SIXTH GENERAL REVISION OF QUOTAS WILL NOT BE
EXAMINED DURING THE CURRENT PARLIAMENTARY SESSION.
IT HAS HAD TO BE POSTPONED UNTIL THE SPRING SESSION
DUE TO THE IMPORTANCE OF PROJECTS REMAINING TO BE
DISCUSSED, SUCH AS THE 1977 FINANCE LAW AND THE
THIRD COLLECTIVE BUDGET FOR 1976.

THE REFORM OF THE IMF STATUTES HAS BEEN OBJECTED
TO BY THE GAULLIST PARTY WHICH BELIEVES THAT IT
WOULD POSE HARM TO FRANCE'S INDEPENDENCE. IT
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ALSO OBJECTS TO THE INCREASED ROLE FOR THE SDR
AND THE REMOVAL OF GOLD FROM ITS TRADITIONAL
ROLE IN THE INTERNATIONAL MONETARY SYSTEM.

11. MINIMUM HOURLY WAGE INCREASED FOR FIFTH
TIME THIS YEAR

ON DECEMBER 1, SMIC (LE SALAIRE MINIMUM INTER-
PROFESSIONNEL DE CROISSANCE) WAS INCREASED BY
2 PERCENT FROM FF 8.76 TO FF 8.94. THE SMIC
IS AUTOMATICALLY RAISED WHEN THE OFFICIAL
RETAIL PRICE INDEX INCREASES BY AT LEAST 2 PERCENT
RELATIVE TO WHEN THE WAGE WAS LAST ADJUSTED.

THIS MARKS THE FIFTH TIME THIS YEAR THAT THE

SMIC HAS BEEN INCREASED. THE INCREASE OVER THE PAST YEAR HAS BEEN 16 PERCENT, WITH A 5.5 PERCENT INCREASE IN PURCHASING POWER; SINCE THE BEGINNING OF THE YEAR, IT HAS BEEN INCREASED BY 13.3 PERCENT, WITH A 4.6 PERCENT GAIN IN PURCHASING POWER.

12. GROWTH OF MONEY SUPPLY IN SEPTEMBER DECELERATES

OFFICIAL DATA FOR THE SEPTEMBER MONEY SUPPLY HAVE NOT YET BEEN RECEIVED, BUT ACCORDING TO PRELIMINARY PRESS REPORTS, THERE WAS A MARKED DECLINE IN THE GROWTH OF M2 FROM A 0.8 PERCENT INCREASE IN AUGUST TO 0.3 PERCENT IN SEPTEMBER (SEASONALLY ADJUSTED). THE UNADJUSTED DATA SHOWED A 0.6 PERCENT INCREASE IN M2 IN SEPTEMBER, COMPARED TO A 1.0 DECREASE IN AUGUST.

13. 1976 BUDGET DEFICIT TO REACH FF 20 BILLION MARK

THE GOF NOW ESTIMATES THAT THE BUDGET DEFICIT FOR 1976 COULD BE AROUND FF 20 BILLION, THUS VERIFYING RUMORS IN SEPTEMBER WHICH AT THAT TIME IT HOTLY DENIED. THE CUMULATIVE DEFICIT FOR 1975 AND 1976 WILL BE NEAR FF 60 BILLION.

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14. OTHER REPORTS SUBMITTED DURING THE PERIOD

TELEGRAMS

PARIS
34878 ZAIRE DEBT RESCHEDULING, 11/24/76
35072 BARRE PLAN: HOLDING THE LINE DESPITE ADVERSITY,
11/26
35754 PRICE INDICES AND PRICE TRENDS IN FRANCE, 12/2/76

AIRGRAMS

PARIS
A-469 FRENCH FOREIGN EXCHANGE HOLDINGS, 11/29/76
A-474 FRENCH FOREIGN EXCHANGE HOLDINGS, 12/3/76
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